

**SATURN OIL & GAS INC. (FORMERLY SATURN MINERALS INC.)**  
(an exploration stage company)

FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2016 AND 2015  
(In Canadian dollars)

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Saturn Oil & Gas Inc. (formerly Saturn Minerals Inc.)

We have audited the accompanying financial statements of Saturn Oil & Gas Inc. (formerly Saturn Minerals Inc.), which comprise the statements of financial position as at December 31, 2016 and 2015 and the statements of loss and comprehensive loss, cash flows and changes in shareholders' equity (deficiency) for the years then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, these financial statements present fairly, in all material respects, the financial position of Saturn Oil & Gas Inc. (formerly Saturn Minerals Inc.) as at December 31, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Saturn Oil & Gas Inc. (formerly Saturn Minerals Inc.)'s ability to continue as a going concern.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Professional Accountants

May 1, 2017



**SATURN OIL & GAS INC. (FORMERLY SATURN MINERALS INC.)**

## STATEMENTS OF FINANCIAL POSITION

(EXPRESSED IN CANADIAN DOLLARS)

AS AT

	Note	December 31, 2016	December 31, 2015
<b>ASSETS</b>			
<b>Current</b>			
Cash		\$ 190,719	\$ 772,925
Amounts receivable	4	14,382	35,494
Marketable securities	5	60,000	122,500
Prepaid expenses		3,826	23,029
Due from related party	12	243,099	62,349
Total current		512,026	1,016,297
<b>Non-current</b>			
Deposit		4,000	4,000
Investments	6	93,344	92,271
Exploration advances	7	-	231,664
Exploration and evaluation assets	8	631,754	2,090,379
Total non-current		729,098	2,418,314
Total assets		\$ 1,241,124	\$ 3,434,611
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	9	\$ 1,563,845	\$ 555,725
Promissory note	10	100,000	-
Due to related parties	12	93,001	35,521
Total liabilities		1,756,846	591,246
<b>Shareholders' Equity (Deficiency)</b>			
Share capital	13	21,078,517	19,713,942
Equity reserves	13	5,339,175	5,192,174
Shares subscribed	13	325,035	-
Accumulated other comprehensive income	6	20,566	-
Deficit		(27,279,015)	(22,062,751)
Total shareholders' equity (deficiency)		(515,722)	2,843,365
Total liabilities and shareholders' equity (deficiency)		\$ 1,241,124	\$ 3,434,611

**Nature and Continuance of Operations** (Note 1)**Contingencies and Commitments** (Note 17)**Subsequent Events** (Note 19)**Approved by the Board of Directors on April 28, 2017**

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*"Stan Szary"*

Director

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*"Stefan Szary"*

Director

*The accompanying notes are an integral part of these financial statements.*

**SATURN OIL & GAS INC. (FORMERLY SATURN MINERALS INC.)**  
**STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
**(EXPRESSED IN CANADIAN DOLLARS)**

	Note	Years ended December 31,	
		2016	2015
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>			
Accounting and auditing	12	\$ 104,900	\$ 64,300
Administration, office and rent		75,888	38,997
Advertising, promotion and public relations		232,877	388,823
Consulting		88,500	144,500
Filing fees		14,536	21,810
Insurance		8,117	5,823
Legal fees		22,420	57,305
Management fees	12	227,650	356,180
Share-based payments	12,13	147,001	638,118
Travel and accommodation		-	89,880
		(921,889)	(1,805,736)
Unrealized gain (loss) on marketable securities	5	(62,500)	85,000
Gain on settlement of accounts payable	9	63,529	-
Settlement of flow-through share premium liabilities		-	80,000
Settlement of litigation expense		-	(50,000)
Impairment of investment	6	-	(1,216,860)
Write-off of exploration and evaluation assets	8	(4,245,676)	(988,327)
Write-off of exploration and evaluation advances		(49,728)	(102,758)
Recovery of due from related parties	12	-	69,121
<b>Loss for the year</b>		<b>(5,216,264)</b>	<b>(3,929,560)</b>
<b>Other comprehensive loss</b>			
Unrealized gain (loss) on investments	6	20,556	(242,397)
<b>Loss and comprehensive loss for the year</b>		<b>\$(5,195,708)</b>	<b>\$ (4,171,957)</b>
<b>Basic and diluted loss per share</b>		<b>\$ (0.04)</b>	<b>\$ (0.03)</b>
<b>Weighted average number of shares outstanding</b>		<b>141,067,342</b>	<b>124,142,113</b>

*The accompanying notes are an integral part of these financial statements.*

**SATURN OIL & GAS INC. (FORMERLY SATURN MINERALS INC.)**  
**STATEMENTS OF CASH FLOWS**  
**(EXPRESSED IN CANADIAN DOLLARS)**

	<b>Years ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (5,216,264)	\$ (3,929,560)
Items not affecting cash:		
Share-based payments	147,001	638,118
Settlement of flow-through share premium liabilities	-	(80,000)
Write-off of exploration and evaluation assets	4,245,676	988,327
Write-off of exploration and evaluation advances	49,728	102,758
Recovery of due from related parties	-	(37,500)
Gain on settlement of accounts payable	(63,529)	-
Impairment of investment	-	1,216,860
Foreign exchange loss (gain) on investments	19,493	(29,424)
Unrealized loss (gain) on marketable securities	62,500	(85,000)
Changes in non-cash working capital items:		
Accounts receivable	21,112	(20,420)
Due to/from related parties	(123,270)	(68,920)
Prepaid expenses	19,203	46,980
Accounts payable and accrued liabilities	92,848	47,629
<b>Net cash used in operating activities</b>	<b>(745,502)</b>	<b>(1,210,152)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of common shares for cash	495,000	2,787,918
Share issuance costs	(32,925)	(88,482)
Shares subscribed	325,035	-
Proceeds from promissory note	100,000	-
Exercise of warrants	902,500	36,200
<b>Net cash provided by financing activities</b>	<b>1,789,610</b>	<b>2,735,636</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Exploration advances	-	(334,422)
Exploration and evaluation assets	(1,626,314)	(1,679,001)
Cost recoveries	-	536,978
<b>Net cash used in investing activities</b>	<b>(1,626,314)</b>	<b>(1,476,445)</b>
<b>Change in cash</b>	<b>(582,206)</b>	<b>49,039</b>
<b>Cash, beginning of year</b>	<b>772,925</b>	<b>723,886</b>
<b>Cash, end of year</b>	<b>\$ 190,719</b>	<b>\$ 772,925</b>

**Supplemental disclosure with respect to cash flows (Note 16)**

*The accompanying notes are an integral part of these financial statements.*

**SATURN OIL & GAS INC. (FORMERLY SATURN MINERALS INC.)**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)**  
**(EXPRESSED IN CANADIAN DOLLARS)**

	Number of Shares	Share Capital	Share-based Payment Reserves	Warrant Reserves	Shares Subscribed	Accumulated Other Comprehensive Loss	Deficit	Total
<b>Balance as at December 31, 2014</b>	<b>116,468,565</b>	<b>\$ 17,070,218</b>	<b>\$ 4,517,769</b>	<b>\$ 24,375</b>	<b>\$ -</b>	<b>\$ (974,462)</b>	<b>\$ (18,133,191)</b>	<b>\$ 2,504,709</b>
Private placements	17,710,654	2,698,863	-	9,055	-	-	-	2,707,918
Share issuance costs and broker's warrants	-	(91,339)	-	2,857	-	-	-	(88,482)
Share-based payments	-	-	638,118	-	-	-	-	638,118
Warrants exercised	181,000	36,200	-	-	-	-	-	36,200
Unrealized loss on available-for-sale investments	-	-	-	-	-	(242,397)	-	(242,397)
Impairment of available-for-sale investments	-	-	-	-	-	1,216,859	-	1,216,859
Loss for the year	-	-	-	-	-	-	(3,929,560)	(3,929,560)
<b>Balance as at December 31, 2015</b>	<b>134,360,219</b>	<b>19,713,942</b>	<b>5,155,887</b>	<b>36,287</b>	<b>-</b>	<b>-</b>	<b>(22,062,751)</b>	<b>2,843,365</b>
Private placements	5,500,000	495,000	-	-	-	-	-	495,000
Share issuance costs	-	(32,925)	-	-	-	-	-	(32,925)
Shares subscribed	-	-	-	-	325,035	-	-	325,035
Warrants exercised	5,350,000	902,500	-	-	-	-	-	902,500
Share-based payments	-	-	147,001	-	-	-	-	147,001
Unrealized gain on available-for-sale investments	-	-	-	-	-	20,566	-	20,566
Loss for the year	-	-	-	-	-	-	(5,216,264)	(5,216,264)
<b>Balance as at December 31, 2016</b>	<b>145,210,219</b>	<b>\$ 21,078,517</b>	<b>\$ 5,302,888</b>	<b>\$ 36,287</b>	<b>\$ 325,035</b>	<b>\$ 20,566</b>	<b>\$ (27,279,015)</b>	<b>\$ (515,722)</b>

*The accompanying notes are an integral part of these financial statements.*

**SATURN OIL & GAS INC. (FORMERLY SATURN MINERALS INC.)**  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016  
(EXPRESSED IN CANADIAN DOLLARS)

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Saturn Oil & Gas Inc. (formerly Saturn Minerals Inc.) (the “Company”) was incorporated under the laws of British Columbia on August 16, 2001. The Company is in the business of acquiring, exploring, evaluating and developing economically viable energy and resource deposits in Canada. The Company’s current focus is to advance the exploration of its coal and oil & gas properties in Eastern Saskatchewan and Western Manitoba.

The Company’s head office and registered office address is Suite 600 - 890 West Pender Street, Vancouver, British Columbia, V6C 1J9. Effective May 3, 2004, the common shares of the Company were listed on the TSX Venture Exchange (“TSXV”) and trade under the symbol “SMI”.

*Going concern of operations*

These financial statements have been prepared assuming the Company will continue on a going concern basis. The Company has incurred losses since its inception and the ability of the Company to continue as a going concern depends on its ability to raise adequate financing and to develop profitable operations. As at December 31, 2016, the Company has an accumulated deficit of \$27,279,015 (2015 - \$22,062,751).

Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, and other business and financial transactions which would assure continuation of the Company’s operations and exploration programs. In addition, management closely monitors commodity prices of precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company if favorable or adverse market conditions occur.

As the Company is in the exploration and evaluation stage, the Company has not identified a known body of commercial grade mineral on any of its properties. The ability of the Company to realize the costs it has incurred to date on these properties is dependent upon the Company identifying a commercial mineral body, to finance its exploration and evaluation costs and to resolve any environmental, regulatory or other constraints which may hinder the successful development of the property. To date, the Company has not earned any revenues.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration and development programs will result in profitable mining operations. The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, confirmation of the Company’s interest in the underlying mineral claims, the ability of the Company to obtain financing to complete their development, and future profitable production or disposition thereof.

These material uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern.

**SATURN OIL & GAS INC. (FORMERLY SATURN MINERALS INC.)**  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016  
(EXPRESSED IN CANADIAN DOLLARS)

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**2. BASIS OF PREPARATION**

**Statement of compliance**

These financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”). The policies applied in these financial statements are based on IFRS issued and effective as of December 31, 2016.

**Basis of presentation**

The financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss and available-for-sale, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information. All dollar amounts presented are in Canadian dollars, which is the Company’s functional currency, unless otherwise specified.

**Use of estimates**

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- a) The recoverability of amounts receivable and due from related parties which is included in the statement of financial position;
- b) The carrying value of the investment in exploration and evaluation costs and the recoverability of the carrying value which are included in the statement of financial position;
- c) The determination of the fair value of stock options or warrants using stock pricing models requires the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions could materially affect the fair value estimate; therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company’s stock options and warrants;
- d) The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax carry-forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore do not necessarily provide certainty as to their recorded values; and
- e) Recorded costs of flow-through share premium liabilities reflect the premium received by the Company on the issue of flow-through shares. The premium is subject to measurement uncertainty and requires the Company to assess the value of non-flow-through shares. This determination is subjective and does not necessarily provide a reliable single measure of the fair value of the flow-through share premium liability.



**SATURN OIL & GAS INC. (FORMERLY SATURN MINERALS INC.)**  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016  
(EXPRESSED IN CANADIAN DOLLARS)

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**2. BASIS OF PREPARATION (cont'd)**

*Critical accounting judgments*

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements include, but are not limited to, the following:

- a) Going concern of operations; and
- b) Determination of categories of financial assets and liabilities.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

**Exploration and evaluation assets**

*Pre-exploration costs*

Pre-exploration costs are expensed in the period in which they are incurred.

*Exploration and evaluation expenditures*

Once the legal right to explore a property has been acquired, all costs related to the acquisition, exploration and evaluation of the properties are capitalized by property. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractor and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general and administrative overhead costs, are expensed in the year in which they occur.

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer part of a property interest, as consideration, for an agreement by the farmee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a gain on disposal.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to profit or loss.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be under development and is classified as "mine or oil and gas wells under construction." Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

**SATURN OIL & GAS INC. (FORMERLY SATURN MINERALS INC.)**  
NOTES TO THE FINANCIAL STATEMENTS  
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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Rehabilitation provision**

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. The nature of rehabilitation activities includes restoration, reclamation and re-vegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining or oil and gas assets. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

Additional environmental disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the period in which they occur.

The Company does not have any significant rehabilitation obligations.

**Impairment of tangible and intangible assets**

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**SATURN OIL & GAS INC. (FORMERLY SATURN MINERALS INC.)**  
NOTES TO THE FINANCIAL STATEMENTS  
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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Share-based payments**

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model and is recognized on a graded basis over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment using the Black-Scholes option pricing model. Otherwise, share-based payments are measured at the fair value of goods and services received.

**Warrants issued in equity financing transactions**

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore its exploration and evaluation assets. These equity financing transactions may involve the issuance of common shares or units. Each unit comprises a certain number of common shares and a certain number of share purchase warrants ("Warrants"). Depending on the terms and conditions of each equity financing agreement, the Warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the agreement. Warrants that are part of units are valued based on the residual value method. Warrants that are issued as payment for agency fees or other transactions costs are accounted for as share-based payments.

**Income taxes**

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years. Deferred tax is recorded by providing for temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets and liabilities that affect neither accounting nor taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it is not recorded.

**Flow-through shares**

The Company will, from time to time, issue flow-through common shares to finance a significant portion of its exploration program. Pursuant to the terms of flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. Upon expenses being incurred, the Company derecognizes the liability and the premium is recognized as other income.

**SATURN OIL & GAS INC. (FORMERLY SATURN MINERALS INC.)**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Earnings (loss) per share**

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. For the periods presented, this calculation proved to be anti-dilutive.

**Comprehensive income**

Comprehensive income or loss is the change in net assets arising from transactions and other events and circumstances from non-owner sources, and comprises net income or loss and other comprehensive income or loss. Financial assets that are classified as available for sale will have revaluation gains and losses included in other comprehensive income or loss until the asset is removed from the statement of financial position.

**Financial instruments**

Financial assets are classified into one of the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

*Financial assets at fair value through profit or loss ("FVTPL")*

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management strategy. Attributable transaction costs are recognized in profit or loss when incurred. FVTPL are measured at fair value, and changes are recognized in profit or loss.

*Held-to-maturity ("HTM")*

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the asset is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are initially recognized at fair value plus any direct attributable transaction costs.

Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment loss.

**SATURN OIL & GAS INC. (FORMERLY SATURN MINERALS INC.)**  
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YEAR ENDED DECEMBER 31, 2016  
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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Financial instruments (cont'd)**

*Available-for-sale ("AFS")*

Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from shareholder's equity and recognized in profit or loss. Subsequent reversals of impairment is recognized as equity. The Company has classified its financial assets as follows:

- Cash and marketable securities are classified as FVTPL.
- Investments are classified as AFS.
- Due from related parties are classified as loans and receivables.
- Permit deposits are classified as HTM.

*Financial liabilities*

Financial liabilities are classified into one of two categories:

- Fair value through profit or loss;
- Other financial liabilities.

*Fair value through profit or loss*

This category comprises derivatives, or liabilities, acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

*Other financial liabilities*

This category includes amounts due to related parties, accounts payable, and promissory note, all of which are recognized at amortized cost.

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted.

For all financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Financial instruments (cont'd)**

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date of impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

**Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

**New accounting standards and interpretation**

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its financial statements.

Effective (proposed) for annual periods beginning on or after January 1, 2018:

IFRS 9, Financial Instruments – Classification and Measurement. IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as de-recognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss.

IFRS 15 – Revenue from Contracts with Customers. IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions involving Advertising Service.

IFRS 16 – Leases. According to IFRS 16, all leases will be on the balance sheet of lessees, except those that meet the limited exception criteria. The standard is effective for annual periods beginning on or after January 1, 2019.

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**4. AMOUNTS RECEIVABLE**

As at December 31, 2016, the Company had GST receivable in the amount of \$14,382 (2015 - \$35,494).

**5. MARKETABLE SECURITIES**

	Shares
Balance, December 31, 2014	\$ -
Acquired	37,500
Change in fair value	85,000
Balance, December 31, 2015	122,500
Change in fair value	(62,500)
Balance, December 31, 2016	\$ 60,000

During the year ended December 31, 2015, the Company received 500,000 shares of Glacier Lake Resources Inc. (formerly Killdeer Minerals Inc.), a company related through common officers and directors for settlement of \$37,500 of debt. Unrealized gains and losses on market fluctuations for the shares are recognized in profit or loss.

**6. INVESTMENTS**

	December 31, 2016	December 31, 2015
Global Resources Investment Trust – cost	\$ 1,300,000	\$ 1,300,000
Fair value adjustment	(1,196,294)	(1,216,860)
Cumulative foreign exchange gain associated with fair value adjustment	(10,362)	9,131
	\$ 93,344	\$ 92,271

During the year ended December 31, 2014, the Company acquired 704,301 shares of Global Resources Investment Trust (“GRIT”) valued at £1.00 each, in consideration for 10,000,000 units of the Company valued at \$0.13 each. The GRIT shares trade through the facilities of the London Stock Exchange. Each unit consists of one common share and one-half common share purchase warrant exercisable at \$0.17 per share for two years.

On acquisition, the GRIT shares were valued at \$1,300,000. The GRIT shares have been designated as available-for-sale and are recorded at fair value. Fair value is determined by reference to the last bid price at the date of the statement of financial position. At December 31, 2015, the Company impaired the GRIT shares as a result of the significant and prolonged decline in fair value and \$1,216,860 was transferred from OCI to profit or loss. During the year ended December 31, 2016, unrealized gains and losses on market fluctuations for the shares are recognized in equity and accordingly the Company recorded an unrealized gain on investments of \$20,566 (2015 - \$Nil).

**7. EXPLORATION ADVANCES**

As at December 31, 2016, the Company has an exploration advance related to the Bannock Creek property in the amount of \$Nil (2015 - \$231,664).

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**8. EXPLORATION AND EVALUATION ASSETS**

Although the Company has taken steps to verify title to mineral exploration and evaluation assets in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

a) Overflowing

The Company's 100% owned Overflowing property consists of contiguous Quarry Leases ("Leases") located in the province of Manitoba. The Leases entail an annual rental of \$27 per hectare. During the year ended December 31, 2016, the Company paid \$10,449 for the annual rental fees.

b) Bannock Creek

During fiscal 2011, the Company submitted a successful bid for a Petroleum & Natural Gas Exploration Permit ("Bannock Creek") during the Lands Sale held by the Saskatchewan Ministry of Energy & Resources.

In November 2012, the Company entered into an agreement, subsequently amended, with Vector Exploration Corp. for exploration and development of the Company's Little Swan and Bannock Creek oil & gas properties. During the year ended December 31, 2015, the Company was granted a permit to drill an oil well at its Bannock Creek Property. During the year ended December 31, 2016, the Company paid \$41,667 to acquire additional sections of oil & gas exploration permits.

During the year ended December 31, 2016, the Company decided not to pursue the property and accordingly wrote off all related exploration and evaluation expenditures in the amount of \$4,245,676 to operations.

c) Gem

Pursuant to an agreement dated April 20, 2005, subsequently amended, the Company has acquired a 100% interest in the Apex 3 and 4 mineral claims located in the New Westminster Mining Division, British Columbia; subject to a net smelter return royalty ("NSR") of 1%. The Company has the right to acquire 0.5% of the NSR for \$1,000,000.



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**8. EXPLORATION AND EVALUATION ASSETS (cont'd)**

d) Little Swan

In 2010, the Company submitted a successful bid for a Petroleum & Natural Gas Exploration Permit ("Little Swan"), located near the town of Hudson Bay, Saskatchewan during the Lands Sale held by the Saskatchewan Ministry of Energy & Resources. The bid was submitted by the Company in conjunction with Gulf Shores Resources Ltd (25% interest) and a privately owned Canadian oil company (25% interest) (collectively, the "Partners"). The Little Swan Project granted its owners an exclusive right to explore for petroleum and natural gas within permit boundaries.

In November 2012, the Company entered into an agreement, subsequently amended, with a private, Calgary based oil & gas company, Vector Exploration Corp. for exploration and development of the Company's Little Swan and Bannock Creek oil & gas properties ("the Properties").

During the year ended December 31, 2014, the Company further amended the existing Farm-In Agreement with Vector for oil & gas permits EP-71 and EP-72 (the "Little Swan" and "Bannock Creek" properties). Under the terms of a new Joint-Operating Agreement, both the Company and Vector would each retain a 50% working interest in both projects.

During the year ended December 31, 2014, the Company entered into an agreement, subsequently amended with Bayhorse Silver Inc. ("Bayhorse") whereby Bayhorse could earn 50% of the Company's 50% interest in the EP-71 (Little Swan).

During the year ended December 31, 2015, the Company received a total amount of \$230,000 from Bayhorse.

During the year ended December 31, 2015, the Company decided not to pursue the property and accordingly wrote off all related exploration and evaluation expenditures in the amount of \$988,327 to operations.

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**8. EXPLORATION AND EVALUATION ASSETS (cont'd)**

	Overflowing	Bannock Creek	Gem	Year ended December 31, 2016	Year ended December 31, 2015
Beginning balance	\$ 558,364	\$ 1,501,889	\$ 30,126	\$ 2,090,379	\$ 1,734,039
Expenditures during the period:					
Acquisition costs	-	41,667	-	41,667	3,000
Assaying	-	4,063	572	4,635	51,649
Camp and field costs	-	-	-	-	240,526
Consulting	-	89,423	4,400	93,823	229,789
Drilling	-	2,311,097	-	2,311,097	656,594
Environmental	-	660	-	660	40,688
Field labour	-	3,719	-	3,719	-
Geology	-	66,604	-	66,604	47,150
Geophysics	-	2,218	-	2,218	388,498
Helicopter	25,537	-	-	25,537	-
Land rental	10,449	-	-	10,449	48,508
Licensing	-	98,303	-	98,303	10,000
Reclamation	-	-	-	-	6,642
Surface Access	-	6,740	-	6,740	20,248
Travel and accommodation	-	14,740	1,610	16,350	51,100
Vehicle and equipment	-	104,553	696	105,249	87,253
	35,986	2,743,787	7,278	2,787,051	1,881,645
Cost recoveries	-	-	-	-	(536,978)
Write-off of exploration and evaluation assets	-	(4,245,676)	-	(4,245,676)	(988,327)
Ending balance	\$ 594,350	\$ -	\$ 37,404	\$ 631,754	\$ 2,090,379

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**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>2016</b>	<b>2015</b>
Accounts payable	\$ 1,524,270	\$ 485,725
Accrued liabilities	35,000	70,000
Interest payable	4,575	-
	<u>\$ 1,563,845</u>	<u>\$ 555,725</u>

During the year ended December 31, 2016, the Company settled certain accounts payable with its suppliers and accordingly recorded a gain on settlement of accounts payable of \$63,529.

**10. PROMISSORY NOTE**

During the year ended December 31, 2016, the Company received proceeds from a promissory note of \$100,000 from a third party. The promissory note bears an interest of 5% per annum and is payable on January 31, 2017 (not paid). During the year ended December 31, 2016, the Company accrued interest of \$4,575 and is included in accounts payable and accrued liabilities. Subsequent to December 31, 2016, the Company received additional proceeds of \$200,000 from the third party. The promissory note is secured by the Company's marketable securities and investments.

**11. FLOW-THROUGH SHARE PREMIUM LIABILITY**

	<b>Total</b>
<b>Balance at December 31, 2014</b>	\$ -
Liability incurred on flow-through shares issued	80,000
Settlement of flow-through share liability on expenditures incurred	(80,000)
<b>Balance at December 31, 2015 and December 31, 2016</b>	<u>\$ -</u>

During the year ended December 31, 2016, the Company issued 5,500,000 (2015 – 3,200,000) flow-through shares and estimated the value of the flow-through premium associated with those shares to be \$Nil (2015 - \$80,000). In each of the years, the Company incurred all obligated expenditures on the flow-through shares.

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**12. RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2016, the Company incurred the following transactions with directors, officers and other key management personnel:

	<b>Years ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Accounting	\$ 42,000	\$ 42,000
Management fees	227,650	356,180
Geological services recorded in exploration and evaluation assets	6,024	-
Share-based payments	48,830	275,408
<b>Total</b>	<b>\$ 324,504</b>	<b>\$ 673,588</b>

As at December 31, 2016, the Company owed \$93,001 (2015 - \$35,521) to its directors, officers, other key management personnel of the Company, and companies controlled by officers of the Company. As at December 31, 2016, the Company advanced \$243,099 (2015 - \$62,349) to an officer and director of the Company.

During the year ended December 31, 2015, the Company received cash and shares totalling \$69,121 from a company with common directors for amounts previously written off.

**13. SHARE CAPITAL AND EQUITY RESERVES**

Authorized

Unlimited common shares without par value.

During the year ended December 31, 2016, the Company:

- a) Issued 5,350,000 common shares for proceeds of \$902,500 as a result of the exercise of warrants.
- b) Closed a flow-through private placement for 5,500,000 flow-through units at a price of \$0.09 per unit (the "FT Unit") for a gross value of \$495,000. Each FT Unit consists of one flow-through common share (the "FT Shares") and 0.3636 non flow-through share purchase warrants (the "FT Warrants"). Each FT Warrant will entitle the holder to purchase one additional non flow-through common share, exercisable at a price of \$0.15 per share for a period of 18 months from the date of issue of the FT Warrant. The FT Warrants are subject to an accelerated expiry clause. The Company paid \$32,925 of cash share issuance costs in relation to the private placement.
- c) Announced a private placement of up to 40,000,000 units (the "Units") at a price of \$0.08 per Unit for gross proceeds of up to \$4,000,000. Each Unit consists of one common share (the "Shares") and one-half of a share purchase warrant (the "Warrants"). Each whole Warrant will entitle the holder to purchase one additional common share, exercisable at a price of \$0.15 per share for a period of 18 months from the date of issue of the Warrant. The Warrants are subject to an accelerated expiry clause. During the year ended December 31, 2016, the Company received proceeds of \$325,035 in relation to this proposed private placement. Subsequent to the year ended December 31, 2016, the Company received an additional \$32,000 in subscription proceeds.

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**13. SHARE CAPITAL AND EQUITY RESERVES (cont'd)**

During the year ended December 31, 2015, the Company:

- a) Closed two tranches of a flow-through private placement for 3,200,000 flow-through units ("FT Unit") and 340,000 FT Units at a price of \$0.18 per FT Unit for a gross value of \$637,200. Each FT Unit consisted of one flow-through common share (the "FT Shares") and one-half of a non flow-through share purchase warrant (the "NFT Warrants"). Each whole NFT Warrant will entitle the holder to purchase one additional non flow-through common share, exercisable at a price of \$0.30 per share for a period of 18 months from the date of issue of the NFT Warrants. The NFT Warrants are subject to an accelerated expiry clause. The Company paid \$37,130 of cash share issuance costs, recorded a premium received on flow-through shares of \$80,000 and incurred \$2,857 of share issuance costs to fair value warrants issued in relation to the private placement.
- b) Closed a non flow-through private placement for 2,500,000 non flow-through units ("NFT Unit") at a price of \$0.18 per NFT Unit for a gross value of \$450,000. Each NFT Unit consists of one common share and one-half of a share purchase warrant. Each whole Warrant will entitle the holder to purchase one additional common share, exercisable at a price of \$0.30 per share for a period of 18 months from the date of issue of the Warrant. The Warrants are subject to an accelerated expiry clause. The Company paid \$3,000 of cash share issuance costs in relation to the private placement.
- c) Issued 181,000 common shares for proceeds of \$36,200 as a result of the exercise of warrants.
- d) Closed a flow-through private placement for 689,654 flow-through units ("FT Unit") at a price of \$0.18 per FT Unit for a gross value of \$124,138. Each FT Unit consisted of one flow-through common share (the "FT Shares") and one-half of a non flow-through share purchase warrant (the "NFT Warrants"). Each whole NFT Warrant will entitle the holder to purchase one additional non flow-through common share, exercisable at a price of \$0.30 per share for a period of 18 months from the date of issue of the NFT Warrants. The NFT Warrants are subject to an accelerated expiry clause.
- e) Closed a non flow-through private placement for 1,811,000 non flow-through units ("NFT Unit") at a price of \$0.18 per NFT Unit for a gross value of \$325,980. Each NFT Unit consists of one common share and one-half of a share purchase warrant. Each whole Warrant will entitle the holder to purchase one additional common share, exercisable at a price of \$0.30 per share for a period of 18 months from the date of issue of the Warrant. The Warrants are subject to an accelerated expiry clause. The Company paid \$10,599 of cash share issuance costs and incurred \$9,055 of share issuance costs to fair value warrants issued in relation to the private placement.
- f) Closed a non-brokered flow-through and non flow-through private placements of 615,000 flow-through units (the "FT Units") and 3,555,000 non flow-through units (the "NFT Units") at a price of \$0.18 per FT and NFT Unit for gross value of \$750,600. Each FT Unit consists of one flow-through common share (the "FT Shares") and one-half of a non flow-through share purchase warrant (the "FT Warrants"). Each whole FT Warrant will entitle the holder to purchase one additional non flow-through common share, exercisable at a price of \$0.30 per share for a period of 18 months from the date of issue of the FT Warrant. Each NFT Unit consists of one non flow-through common share (the "NFT Shares") and one-half of a non flow-through share purchase warrant (the "NFT Warrants"). Each whole NFT Warrant will entitle the holder to purchase one additional non flow-through common share, exercisable at a price of \$0.30 per share for a period of 18 months from the date of issue of the NFT Warrant. The FT and NFT Warrants (collectively, the "Warrants") are subject to an accelerated expiry clause. The Company paid \$4,503 of cash share issuance costs in relation to the private placement.

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**13. SHARE CAPITAL AND EQUITY RESERVES (cont'd)**

During the year ended December 31, 2015, the Company (cont'd):

- g) Closed a flow-through private placement for 5,000,000 flow-through units ("FT Unit") at a price of \$0.10 per FT Unit for a gross value of \$500,000. Each FT Unit consists of one flow-through common share (the "FT Shares") and one-half of a non flow-through share purchase warrant (the "NFT Warrants"). Each whole NFT Warrant will entitle the holder to purchase one additional non flow-through common share, exercisable at a price of \$0.15 per share for a period of 18 months from the date of issue of the NFT Warrants. The NFT Warrants are subject to an accelerated expiry clause. The Company paid \$3,250 of cash and incurred \$30,000 of share issuance costs to fair value warrants issued in relation to the private placement.

Share Purchase Warrants

Warrant transactions are summarized as follows:

	<b>Outstanding Warrants</b>	<b>Weighted Average Exercise Price</b>
Balance, December 31, 2014	13,357,333	\$ 0.19
Granted	8,905,327	0.26
Exercised	(181,000)	0.20
Expired	(2,038,833)	0.20
Balance, December 31, 2015	20,042,827	0.22
Granted	1,999,800	0.15
Exercised	(5,350,000)	0.17
Expired	(10,107,827)	0.25
Balance, December 31, 2016	6,584,800	\$ 0.20

The weighted average trading price at the date the warrants were exercised during the year ended December 31, 2016 was \$0.16.

As at December 31, 2016, the following share purchase warrants were issued and outstanding:

<b>Expiry Date</b>	<b>Outstanding Warrants</b>	<b>Exercise Price</b>
February 6, 2017	2,085,000	\$ 0.30*
June 12, 2017	2,500,000	\$ 0.15
January 27, 2018	1,999,800	\$ 0.15
	6,584,800	

\*expired subsequently unexercised

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**13. SHARE CAPITAL AND EQUITY RESERVES (cont'd)**

Stock Options

The Company has an incentive stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 16,456,650 common shares of the Company. Under the plan, the exercise price of each option shall not be less than the discounted market price of the Company's stock on the grant date. The options can be granted for a maximum term of 5 years. The options granted vest as to 25% on the date of grant and 12.5% at the end of every quarter after the grant date. Vesting is determined by the Board of Directors. A summary of changes of stock options outstanding is as follows:

	<b>Outstanding Options</b>	<b>Weighted Average Exercise Price</b>
Balance, December 31, 2014	11,080,000	\$ 0.17
Granted	5,650,000	0.20
Forfeited/expired	(1,200,000)	0.18
Balance, December 31, 2015	15,530,000	0.18
Granted	500,000	0.15
Forfeited/expired	(3,856,000)	0.17
Balance, December 31, 2016	12,174,000	\$ 0.18
Exercisable, December 31, 2016	11,949,000	\$ 0.18

As at December 31, 2016, the following options were issued and outstanding:

<b>Expiry Date</b>	<b>Outstanding Options</b>	<b>Exercise Price</b>
January 11, 2017	1,019,000	\$ 0.20*
September 15, 2017	1,005,000	\$ 0.20
January 22, 2019	4,500,000	\$ 0.15
February 24, 2020	3,000,000	\$ 0.20
May 7, 2020	2,000,000	\$ 0.20
December 11, 2020	150,000	\$ 0.20
January 29, 2021	500,000	\$ 0.15
	12,174,000	

\*expired subsequently unexercised

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**13. SHARE CAPITAL AND EQUITY RESERVES (cont'd)**

Stock Options (cont'd)

During the year ended December 31, 2016, the Company granted 500,000 (2015 – 5,650,000) stock options with an initial fair market value of \$41,166 (2015 - \$750,700) or \$0.08 (2015 - \$0.13) per option. The Company expensed \$37,440 (2015 - \$609,074) to operations for the options vesting during the year ended December 31, 2016 with the balance of \$109,561 (2015 - \$29,044) pertaining to the prior year's grants of stock options. The following weighted average assumptions were used for the Black-Scholes valuation of the stock options:

	<u>2016</u>	<u>2015</u>
Risk-free interest rate	0.67%	0.85%
Expected life of option	5 years	5 years
Expected dividend yield	0%	0%
Expected stock price volatility	109.74%	113.00%

**14. FINANCIAL INSTRUMENTS**

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure. These risks include liquidity risk, credit risk, currency risk, interest rate risk and price risk. Where material, these risks are reviewed and monitored by the Board of Directors.

a) Capital management

The Company manages its capital to safeguard the Company's ability to continue as a going concern, so that it can continue to provide adequate returns to shareholders and benefits to other stakeholders, and to have sufficient funds on hand for business opportunities as they arise.

The Company considers the items included in share capital as capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, or return capital to shareholders. As at December 31, 2016, the Company is not subject to externally imposed capital requirements.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company is considered to be in the exploration and evaluation stage. Thus, it is dependent on obtaining regular financings in order to continue its exploration and evaluation programs. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings. The Company's cash is invested in business accounts with quality financial institutions, is available on demand for the Company's programs, and is not invested in any asset backed commercial paper. As at December 31, 2016, the Company had \$190,719 (2015 - \$772,925) in cash and \$1,756,846 (2015 - \$591,246) in current liabilities. The Company is exposed to liquidity risk.

c) Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash, and amounts receivable. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions.



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**14. FINANCIAL INSTRUMENTS (cont'd)**

d) Currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company's investment financial asset is trading on the London Stock Exchange in British pounds (£) and could result in gains or losses on foreign exchange. The Company also continuously monitors GRIT share trading prices.

e) Interest rate risk

The Company's exposure to interest rate risk arises from the interest rate impact on its cash and permit deposits. There is a minimal risk that the Company would recognize any loss as a result of change in market interest rates.

f) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The ability of the Company to explore its resource properties and future profitability of the Company are directly related to the market price of commodities. The Company monitors commodity and equity prices to determine appropriate actions to be undertaken.

g) Fair value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

*Level 1* – Unadjusted quoted prices in active markets for identical assets or liabilities;

*Level 2* – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

*Level 3* – Inputs that are not based on observable market data.

The fair value of cash, marketable securities and investments are measured based on level 1 inputs of the fair value hierarchy.

The estimated fair value of due from and to related parties, accounts payable, and promissory note is equal to their carrying values due to the short-term nature of these instruments.

**15. SEGMENTED INFORMATION**

The Company currently conducts substantially all of its operations in Canada in one business segment being the acquisition and exploration of resource properties.

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**16. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

The Company's significant non-cash transactions during the year ended December 31, 2016 were as follows:

- a) Included in exploration and evaluation assets is \$1,239,040 which relates to accounts payable and accrued liabilities.
- b) Reallocated \$181,936 from exploration advances to exploration and evaluation assets.

The Company's significant non-cash transactions during the year ended December 31, 2015 were as follows:

- a) Included in exploration and evaluation assets is 260,239 which relates to accounts payable and accrued liabilities.
- b) The premium received on flow through shares issued in a private placement was determined to be \$80,000 and has been recorded as a share capital reduction.

The Company paid no interest or income tax for the years presented.

**17. CONTINGENCIES AND COMMITMENTS**

The Company has entered into a consulting agreement with a director and officer of the Company at a cost of \$120,000 per annum.

The agreement will continue indefinitely, subject to the termination notice given by either party. The Company must provide 3-month's written notice for termination but reserves the right to waive such notice upon paying the fees which would have accrued during the 12-month period.

Should the Company be subject to a change in control and terminate the agreement, the engagement will terminate immediately and the Company will be required to pay an amount equal to 12-month's fees calculated based on the average annual salary over the previous three years.

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**18. INCOME TAXES**

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	<b>2016</b>	<b>2015</b>
Loss before income taxes	\$ (5,216,264)	\$ (3,929,560)
Expected income tax (recovery)	(1,356,000)	(1,022,000)
Change in statutory tax rates and other	28,000	(4,000)
Permanent differences	46,000	290,000
Impact of flow-through shares	129,000	488,000
Share issue costs	(9,000)	(23,000)
Adjustment to prior years provision versus statutory tax returns	(61,000)	28,000
Expiry of non-capital losses	116,000	-
Change in unrecognized deductible temporary differences	1,107,000	243,000
<b>Total income tax expense</b>	<b>\$ -</b>	<b>\$ -</b>

The significant components of the Company's deferred tax assets and liabilities are as follows:

	<b>2016</b>	<b>2015</b>
Deferred Tax Assets (Liabilities)		
Exploration and evaluation assets	\$ 1,075,000	\$ 127,000
Share issue costs	35,000	46,000
Property and equipment	2,000	2,000
Marketable securities	154,000	146,000
Non-capital losses	2,656,000	2,494,000
	\$ 3,922,000	\$ 2,815,000
Unrecognized deferred tax assets	(3,922,000)	(2,815,000)
<b>Net deferred tax assets</b>	<b>\$ -</b>	<b>\$ -</b>

The significant components of the Company's temporary differences and unused tax losses are as follows:

	<b>2016</b>	<b>Expiry Date Range</b>	<b>2015</b>	<b>Expiry Date Range</b>
<b>Temporary Differences</b>				
Exploration and evaluation assets	\$ 3,698,000	No Expiry	\$ 318,000	No Expiry
Investment tax credit	154,000	2020 to 2035	60,000	2020 to 2034
Property and equipment	7,000	No Expiry	7,000	No Expiry
Share issue costs	135,000	2017 to 2021	176,000	2016 to 2020
Marketable securities	1,184,000	No Expiry	1,123,000	No Expiry
Non-capital losses	10,216,000	2017 to 2036	9,593,000	2016 to 2035

During the year ended December 31, 2016, the Company issued 5,500,000 common shares on a flow-through basis for gross proceeds of \$495,000. The underlying flow-through agreements require the Company to renounce certain deductions for Canadian exploration expenditures incurred on the Company's mining properties. As at December 31, 2016, the Company has \$Nil in unexpended exploration expenditures.

Tax attributes are subject to review, and potential adjustment, by tax authorities.

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**19. SUBSEQUENT EVENTS**

Subsequent to the year ended December 31, 2016, the Company:

- a) Paid \$235,000 to acquire an oil property in the greater Kindersley area of Saskatchewan.
- b) Granted 10,000,000 stock options with an exercise price of \$0.08 per common share to certain directors of the company. The options are exercisable until April 17, 2022, and vest over a period of 18 months from the date of grant.